



**TSWELOPELE**  
LOCAL MUNICIPALITY  
A MUNICIPALITY IN PROGRESS

## **TARIFF POLICY**

## **1. GENERAL INTRODUCTION AND OBJECTIVE**

- 1.1. The tariff policy may differentiate between different categories of users, debtors, service providers, service standards and geographical areas as long as such differentiation does not amount up to unfair discrimination.
- 1.2. A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements. The tariff policy at least should include the principles in section 74 (2)
- 1.3. The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy).
- 1.4. In setting its annual tariffs the council of Tswelopele local municipality shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.
- 1.5. Tswelopele local municipality wishes to achieve the following objectives by adopting this tariff policy:
  - 1) To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
  - 2) To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of section 76(b) of the Act.
  - 3) To give guidance to the Councillor responsible for finance regarding tariff proposals that must be submitted to Council annually during the budget process.

## **2. DEFINITIONS**

- 2.1. In this tariff policy, unless inconsistency with the context, a word or expressions to which a meaning in the Act has been attached means:-

**“agricultural consumers”** include but are not limit to- farms, smallholdings and agricultural show grounds;

**“break even”** occurs where the volume sales are equal to the fix and variable cost associated with the provision of the service;

**“charitable and welfare institutions and organisations”** include but are not limit to any institution managed on a non-profitable basis by a church association or a registered charity organisation for example old ages homes, pre-primary schools, care facility for pre-primary children, old age facility, homes and/or care facilities for the homeless and children homes;

**“commercial consumers”** include but are not limit to business undertakings, shops, offices, liquor stores, supermarkets, public garages, gathering places, nurseries, places of entertainment, service stations, hairdressings salons, banks, hotels, guesthouses, boarding houses and doctor-and dentist consulting rooms;

**“community service”** are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered fully from public service charges and are of a regulatory nature;

**“councillor for financial matters”** the councillor of the municipal council responsible for financial matters;

**“domestic consumers”** include but are not limit to residence, group housing, town houses, semi-detached houses, and flats;

**“economic services”** are services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers;

**“educational and communal institutions”** include but are not limit to schools, colleges, pre-primary schools not operated by a registered charity or welfare organisations, libraries, museums, churches, hospitals, clinics, correctional institutions, school hostels and community halls;

**“fixed costs”** are costs which do not vary with consumption or volume produced;

**“geographical areas”** areas identified as such by council due to service backlogs, social circumstances or any other similar reasons;

**“indigent households”** are households that are registered at the municipality as such and meet the criteria's as stipulated in section 20 of the credit control and debt collection policy and occupying a property within the jurisdiction of the municipality;

**“industrial consumers”** include but are not limit to Industrial undertakings, factories, warehouses, workshop, scrap yards, stores, wine cellars, abattoir, dairy processing plants and fish markets;

**“municipalities”** include but are not limit to all properties registered in the name of the municipality or controlled by the municipality excepting libraries, museums, and contagious diseases hospital and caravan parks;

**“resident”** a person who is ordinary resident in the municipal area;

**“special agreements”** are special tariff agreements entered into with consumers making significant economic contribution to the community and create job opportunities;

**“sport and recreation facilities”** include but are not limit to properties used exclusively for sport and recreation purposes including school sport fields which are metered separately for water and electricity consumption and caravan parks;

**“the Act”**: the Local Government: Municipal Systems Act, 2000 (Act no 32 of 2000);

**“total cost”** is the sum of all fixed and variable costs associated with a service;

**“trading services”** Are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services;

**“two-part tariffs”** are tariffs that are raised to cover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed;

**“units consumed”** are the number of units consumed of a particular service and are measured in terms of the tariff structure reflected in Section 7;

**“variable costs”** are costs that vary with consumption or volume produced.

### 3. GENERAL PRINCIPLES

3.1. Tswelopele local municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region. Service tariffs imposed by Tswelopele local municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigent relief measures approved by the municipality from time to time).

3.2. The tariff which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

3.3. Tariffs for the four major services rendered by the municipality, namely:

- i. electricity
- ii. water
- iii. sewerage (waste water)
- iv. refuse removal (solid waste),

shall as far as possible recover the expenses associated with the rendering of each service concerned.

- 3.3. Tswelopele local municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the municipality may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

Tswelopele local municipality shall develop, approve and at least annually review an indigent support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.

- 3.4. In line with the principles embodied in the Constitution and in other legislation pertaining to local government, Tswelopele local municipality may differentiate between different categories of users and consumers in regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.
- 3.5. Tswelopele local municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question. Tswelopele local municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.

Tswelopele local municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

- 3.6. In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

- 3.7. In addition, Tswelopele local municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.

In considering the costing of its water, electricity and sewerage services, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services. The municipality therefore undertakes to plan the management and expansion of the services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels which fluctuate significantly over shorter periods are also met. This may mean that the services operate at less than full capacity at various periods, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

- 3.8. In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the municipality believes that it is properly attending to the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.
- 3.9. It is therefore accepted that part of the municipality's tariff policy for electricity services will be to ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers during certain periods. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.
- 3.10. Furthermore the following principles will also apply:
- (a) Free services will only be possible if the National Government pay to the municipality an equitable share subsidy which covers the full costs of the free services.

- (b) All users of municipal services will be treated equitably. The various categories of customers will pay the same charges based on the same cost structure.
- (c) The amount payable by consumers will be in proportion to usage of the service.
- (d) Indigent households must at least have access to basic services through lifeline tariffs or direct subsidisation.
- (e) Tariffs must reflect the total cost of services.
- (f) Within limits, customers should be free to choose from a range of applicable tariffs.
- (g) Tariffs must be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:
  - (a) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.
  - (b) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- (h) Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be required during a national disaster and periods of droughts when a restriction of usage is required.
- (i) Efficient and effective use of resources will be encouraged by providing for penalties to prohibit exorbitant use.
- (j) The extent of subsidisation of tariffs will be disclosed.
- (k) VAT is excluded from all tariffs and will be additional to these tariffs when applicable.

#### **4. CATAGORIES OF CONSUMERS**



- (1) Separate tariffs structure may be raised for the following categories of Customers
- a) domestic consumers;
  - b) commercial consumers;
  - c) industrial consumers;
  - d) agricultural consumers;
  - e) municipalities;
  - f) consumers with whom special agreements were made;
  - g) consumers in certain geographical areas;
  - h) sport and recreation facilities
  - i) educational and communal institutions; and
  - j) charitable and welfare institutions and organisations.
- (2) Where there is a substantial difference between the infrastructure use to provide a service to a specific group of users within a category and/or standard of services provided, the Council can, after the considering a report by the Municipal Manager or the relevant Head of Department, determine differentiated tariffs for the different consumer within the specific category.
- (3) The differentiation must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards.

## **5. SERVICE EXPENDITURE CLASSIFICATION AND COST ELEMENTS**

### **5.1. Service classification**

- (1) The Chief Financial Officer shall, subject to the guidelines provided by the National Treasury make provision for the following classification of services.

**(a) Trading services**

- (i) Water.
- (ii) Electricity.

**(b) Economic services**

- (iii) Refuse removal
- (iv) Sewerage disposal.

**(c) Community services**

- i) Local tourism.
- ii) Town planning.
- iii) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law.
- iv) Stormwater management system in built-up areas.
- v) Trading regulations.
- vi) Fixed billboards and the display of advertisements in public places.
- vii) Cemeteries.
- viii) Control of public nuisances.
- ix) Licensing and control of undertakings that sell food to the public.
- x) Local amenities.
- xi) Local sport facilities.
- xii) Municipal parks and recreation.
- xiii) Municipal roads.
- xiv) Noise pollution.
- xv) Pounds.
- xvi) Public places.
- xvii) Street trading/street lighting.
- xviii) Traffic and parking.
- xix) Building control.

- xx) Licensing of motor vehicles and transport permits.

## 6. TARIFF TYPES

- 6.1. In determining the type of tariff applicable to the type of service the municipality shall make use of the following five options or a combination of the same.

- (1) **Single tariff:** this tariff shall consist of a cost per unit consumed. All costs will be recovered through unit charges at the level where income and expenditure breaks even. Subject to a recommendation by the Chief Financial Officer the council may decide to approve profits on trading services during the budget meeting. Such profits will be added to the fixed and variable cost of the service for the purpose of calculating the tariffs.

- (2) **Cost related two to three part tariff:** this tariff shall consist of two to three parts. Management, capital, maintenance and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed. Three part tariffs will be used to calculate the tariff for electricity and to provide for maximum demand and usage during limited demand.

- (3) **Inclining block tariff:** this tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase. This tariff will only be used to subsidised free basic services and prohibit the exorbitant use of a commodity. The first step in the tariffs will be calculated at break-even point. Subsequent steps will be calculated to yield profits and to discourage excessive use of the commodity.

## 7. CALCULATION OF TARIFFS FOR MAJOR SERVICES

- 7.1. In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:

- i. Cost of bulk purchases in the case of water and electricity.

- ii. Distribution costs.
- iii. Distribution losses in the case of electricity and water.
- iv. Depreciation expenses.
- v. Maintenance of infrastructure and other fixed assets.
- vi. Administration and service costs, including:
  - Service charges levied by other departments such as finance, human resources and legal services;
  - reasonable general overheads, such as the costs associated with the office of the municipal manager;
  - adequate contributions to the provisions for bad debts and obsolescence of stock;
  - all other ordinary operating expenses associated with the service concerned including, in the case of the electricity service, the cost of providing street lighting in the municipal area (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the municipality).
- vii. The intended surplus to be generated for the financial year, such surplus to be applied:
  - a. as an appropriation to capital reserves; and/or
  - b. generally in relief of rates and general services.
- viii. The cost of approved indigent relief measures.

Tswelopele local municipality shall provide the first 50kWh of electricity per month and the first 6 kl of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigent relief programme. The municipality shall further consider relief in respect of the tariffs for sewerage and refuse removal for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget.

## 8. ELECTRICITY

- 8.1. The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs, as approved by the council in each annual budget. Guidelines issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.
- 8.2. Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.

**Categories of consumption and charges shall be as follows:**

- i. With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.
- ii. All domestic electricity consumers of the municipality who are registered as indigents with the municipality shall receive free the first 50kWh (fifty) of electricity consumed per month.
- iii. All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charges.

**9. WATER**

- 9.1. The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget. Tariff adjustments shall be effective from 1 July each year.

The following tariff structure shall apply:

- Fixed tariff as determined by council from time to time on properties where there are no water meters
- Consumption based tariff as determined by council from time to time on properties where there are water meters
- Fixed availability charges as determined by council from time to time for empty sites

**Categories of consumption and charges shall be:**

- I. All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kl of water consumed per month
- II. All other domestic consumers shall be charged for actual water consumption as per the tariff determined by council

**10: REFUSE REMOVAL**

- 10.1. The categories of refuse removal users as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget. Tariff adjustments shall be effective from 1 July each year.
- 10.2. A separate fixed monthly refuse removal charge shall apply to each of the following categories of users, based on the costs of the service concerned:
  - i. Domestic and other users
  - ii. Business and other users
- 10.3. Registered indigents will receive a subsidy on refuse removal.

**11. SEWERAGE**

- 11.1. The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget. Tariff adjustments will be effective from 1 July each year.

**Categories of usage and charges shall be:**

- I. A basic (availability) charge per month shall be charged for undeveloped erven, irrespective of their permitted or intended use.
- II. A fixed monthly charge based on the costs of the service shall be charged for domestic users.
- III. A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.

## **12. MINOR TARIFFS**

- 12.1. All minor tariffs shall be standardised within Tswelopele local municipality's municipal region. All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

All minor tariffs over which Tswelopele local municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

## **13. NOTIFICATION OF TARIFFS, FEES AND SERVICES**

- 13.1. The council will give notice of all tariffs approved at the annual budget meeting at least 30 days prior to the date that the tariffs become effective. Accounts delivered after the 30 days' notice will be based on the new tariffs.
- 13.2. A notice stating the purport of the council resolution, date on which the new tariffs shall become operational and invitation for objections will be displayed by the municipality at a place installed for that purpose. All tariffs approved must be considered at the annual budget meeting.

**14. IMPLEMENTING AND PHASING IN OF THE POLICY**

- 14.1. The principle contained in this policy will be reflected in the various budget proposals submitted to council on an annual basis, service bylaws as promulgated and adjusted by Council from time to time and the tariff by-laws referred to in section 75 of the Act.
- 14.2. The council may determine conditions applicable to community service of a regulators nature. These conditions will be reflected in the standing orders of council.

**15. ADJUSTMENT OF ACCOUNTS**

- 15.1. Where incorrect debits were raised, the accounts under query will be rectified.



## **16. ANNEXURE: LEGAL REQUIREMENTS**

### **SECTION I: WATER SERVICES ACT NO. 108 OF 1997**

#### **SECTION 10: NORMS AND STANDARDS FOR TARIFFS**

Tswelopele local municipality, in its capacity as a water services institution, must apply a tariff for water services which is not substantially different from any norms and standards which the Minister of Water Affairs and Forestry, with the concurrence of the Minister of Finance, has prescribed in terms of the present Act.

#### **SECTION 21: BY-LAW**

Tswelopele local municipality, in its capacity as water services authority, must make by-laws which contain conditions for the provision of water services, and which provide for at least the following (amongst others):

- i. the standard of the services;
- ii. the technical conditions of supply, including quality standards, units or standards of measurement, the verification of meters, acceptable limits of error and procedures for the arbitration of disputes relating to the measurement of water services provided;
- iii. the determination and structure of tariffs in accordance with Section 10 of the present Act.

If Tswelopele local municipality, in its capacity as water services authority, has imposed conditions under which water services are provided, such conditions must be accessible to consumers and potential consumers.

If Tswelopele local municipality, in its capacity as water services authority, provides water for industrial use, or controls a system through which industrial effluent is disposed of, it must make by-laws providing for at least the following:

- i. the standards of the service;
- ii. the technical conditions of provision and disposal;

- iii. the determination and structure of tariffs.

## **SECTION II: LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000**

### **SECTION 74: TARIFF POLICY**

The council of Tswelopele local municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.

Such policy must comply with the provisions of the present Act and any other applicable legislation.

Such tariff policy must reflect at least the following principles:

- i. that users of municipal services must be treated equitably in the application of the municipality's tariffs;
- ii. that the amount individual users pay for services must generally be in proportion to the use of such services;
- iii. that poor households must have access to at least basic services through tariffs which cover only operating and maintenance costs, special tariffs or lifeline tariffs for low levels of use or consumption of services or for basic levels of services, or any other direct or indirect method of subsidisation of tariffs for poor households;
- iv. that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- v. that tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned;

- vi. that provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- vii. that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- viii. that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
- ix. that the extent of subsidisation of tariffs for poor households and other categories of users must be fully disclosed.

The tariff policy may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas. If the policy entails such differentiation, the municipality must ensure that this does not amount to unfair discrimination.

### **SECTION 73: GENERAL DUTY**

Tswelopele local municipality must give effect to the provisions of the Constitution, and in doing so give priority to the basic needs of the local community, promote the development of the local community, and ensure that all members of the local community have access to at least the minimum level of basic municipal services.

The services provided by Tswelopele local municipality must be: equitable and accessible; provided in a manner conducive to the prudent, economic, efficient and effective use of available resources, and the improvement of standards of quality over time; financially sustainable; environmentally sustainable; and regularly reviewed with a view to upgrading, extension and improvement.

### **SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY**

The council of Tswelopele local municipality must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.

Such by-laws may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, but in a manner which does not amount to unfair discrimination